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Business Report

(From April 1, 2015 to March 31, 2016)

1. Company overview

(1) Business progress and results

With continued improvement in the employment and income situation, the Japanese economy during the fiscal year ended March 31, 2016 was on a moderate recovery trend against the backdrop of the effect of various government policies, yen devaluation, and the drop in the price of oil.

Regarding the business of the OSAKA Titanium technologies Co., Ltd. (the “Company”), for the Titanium Business, in addition to domestic customers having generally finished their inventory adjustment at the end of the last fiscal year, the recovery of demand for mill products for general industrial applications, primarily for shipbuilding-use plate heat exchangers and for power plants, along with spot demand for seawater desalination plants in the Middle East, contributed to a large increase in sales volume. Our exports were also affected by inventory adjustments but the manufacture of aircrafts is continuing to be robust.

As a result, Titanium Business net sales were 27,918 million yen (up 19.5% year on year). In addition, due to the firmness of the recovery of business both domestically and for export, the increase in production of titanium sponge that we started in the second quarter was completed on schedule.

As for our Polycrystalline Silicon Business, the adjustments in supply and demand for polycrystalline silicon for semiconductor continued unchanged. Also, due to the occurrence of trouble in production of products for major domestic customers, delivery of those products to the customer in the second half of the fiscal year was delayed and we suffered increased costs due to problems such as operational and yield losses. As a result, net sales were 10,838 million yen (down 26.1%).

In the High-performance Materials Business, due to increased demand for high-purity titanium that accompanied an increase in demand for semiconductors and strong demand for TILOP from the liquid crystal sector, sales volume increased and net sales were 2,391 million yen (up 3.3%).

As a result of the above, net sales for the fiscal year under review increased to 41,149 million yen (up 2.0%). However, regarding profits, even though titanium sales increased, the polycrystalline silicon production problems exerted a large effect resulting in an operating loss of 1,643 million yen (compared to operating income of 2,764 million yen during the previous fiscal year) and an ordinary loss of 2,058 million yen (compared to ordinary income of 3,496 million yen). Also, as for polycrystalline silicon manufacturing equipment, in consideration of the worsening of the polycrystalline silicon market environment and the revision of the expected sales amount due to the production problems we had this time, we posted an impairment loss of 9,500 million yen so our net loss was 8,840 million yen (compared to net income of 2,666 million yen).

(2) **Capital investments**

Capital investment during the fiscal year under review totaled 2,157 million yen. This was primarily investments in titanium manufacturing equipment.

(3) **Capital procurement**

We allotted our own capital and loans for the funds necessary for the capital investments undertaken during the fiscal year under review.

(4) **Business results and asset trends**

Category	FY2012 (16th term)	FY2013 (17th term)	FY2014 (18th term)	FY2015 (fiscal year under review)
Net sales (Millions of yen)	55,875	42,909	40,356	41,149
Ordinary income (loss) (Millions of yen)	3,926	326	3,496	(2,058)
Net income (loss) (Millions of yen)	2,075	(2,906)	2,666	(8,840)
Net income (loss) per share (Yen)	56.39	(78.99)	72.47	(240.25)
Total assets (Millions of yen)	127,448	110,220	102,395	88,905
Total equity (Millions of yen)	44,129	41,129	43,539	33,822

(Notes) 1. Losses are denoted in parentheses.

2. Net income (loss) per share is calculated based on the average number of issued shares during the term.

(5) **Medium- to long-term management strategy and issues to be addressed**

In May of last year, we formulated a Medium-term Management Plan (FY2015–FY2017) and after that, because of the impairment loss posted in FY2015 for fixed assets related to the Polycrystalline Silicon Business, in April of this year we revised our basic policy, business strategy, and business result targets.

A summary of the Plan after revision is below.

Summary of the Medium-term Management Plan (FY2015 – FY2017)

I. Basic policies of the Medium-term Management Plan (FY2015 – FY2017)

1. We will aim to expand our share of global markets faster than market expansion with growth centered on the Titanium Business, in which demand from the aircraft market is expected to increase.
 - (1) Strengthen long-term partnerships with customers and promote sales in the largest market segment
 - (2) Comprehensively maintain and reinforce cost and quality competitiveness
2. Maintain stable production and strengthen relationships with main customers by giving first priority to quality in the Polycrystalline Silicon Business
3. Expand High-performance Materials Business

II. Business strategy by area

1. Titanium Business

- (1) Expand market share by strengthening relationships with major customers inside and outside Japan and identifying their requirements
 - Differentiate engine and fuselage purchase specifications => strengthen sales of fuselage products (largest market segment)
 - Utilize outcomes of strengthening competitiveness and ensuring upside response capabilities
 - Respond to customer requirements

} Aim for sales growth that exceeds market growth rate
- (2) Strengthen competitiveness
 - (i) Further improve productivity
 - Increase current real annual production capacity from 44,000 tons (nominal 40,000 tons) to 47,000 tons in FY2017
 - Establish 40,000 ton-system with large reduction furnaces alone

} Secure upside response capabilities with the world's No. 1 production capacity and achieve the world's No. 1 productivity
 - (ii) Comprehensive cost rationalization
=> cost rationalization target 2.0 billion yen (FY2014 to FY2017)
- (3) Response to production volume exceeding 40,000 tons
 - (i) Up to 47,000 tons/year, respond by restarting out-of-service reserve reduction furnaces
 - (ii) Consider a global supply system with overseas production sites when annual production exceeds 47,000 tons

2. Polycrystalline Silicon Business

- (1) Thorough strengthening of quality management system
=> Reduction of costs due to quality loss and loss of opportunity
- (2) Strengthening relationships with main customers
- (3) Establish stable production technology for high quality polycrystalline silicon and expand sales

3. High-performance Materials Business

(High-Purity Titanium)

- (1) Expand sales through strategic partnerships with customers
- (2) Respond actively to the need for high quality

(TILOP)

Establish minimum cost production technologies tailored to market needs.

(New Businesses)

Expand into titanium powder for layered manufacturing businesses, etc.

III. Business result targets

In April of this year the business results targets for the Polycrystalline Silicon Business were revised

FY2017 business results targets

(Billions of yen)

	Formulated May 2015	Targets after revision
Titanium	33.0	33.0
Polycrystalline Silicon	<u>17.0</u>	<u>14.0</u>
High-performance Materials	3.0	3.0
Net sales	53.0	50.0
Titanium	5.0	5.0
Polycrystalline Silicon	<u>1.0</u>	<u>0.3</u>
High-performance Materials	1.0	1.0
Operating income	7.0	6.3
Ordinary income	7.0	6.3
Net income	4.7	4.0
Return on equity (ROE)	10%	10%
Loan balance	30.0	32.0
Debt/equity ratio	0.6 times	0.8 times
Dividend payout ratio	25%–35%	No change
Assumed exchange rate	110 yen/US dollar	110 yen/US dollar

(6) Major business operations (As of March 31, 2016)

Titanium Business

Titanium Sponge, Titanium Ingots, Titanium Tetrachloride, Titanium Tetrachloride Aqueous Solution

Polycrystalline Silicon Business

Polycrystalline Silicon

High-performance Materials Business

High-Purity Titanium, SiO, TILOP, Titanium Powder

(7) Major offices and plants (As of March 31, 2016)

Headquarters / Amagasaki Plant	1 Higashihama-cho, Amagasaki, Hyogo.
Tokyo Office	Sumitomo Hamamatsu-cho Building 8th floor, 1-18-16, Hamamatsu-cho, Minato-ku, Tokyo
Kishiwada Works	3-2, Kishinoura-cho, Kishiwada, Osaka

(8) Employees (As of March 31, 2016)

Number of employees	Change from end of the previous fiscal year	Average age	Average number of years of service
746	-4	39.4	13.5

(Notes)

1. The number of employees excludes those employees temporarily transferred out of the Company and includes those employees temporarily transferred into the Company.
2. In addition to the number of employees in 1. above, there are 74 temporary employees (average number of employees during the fiscal year).
3. The Company's employees were largely transferred from Sumitomo Metal Industries, Ltd., which was the Company's parent company at the time, on January 1, 2002, and average number of years of service includes the number of years of service before the transfer.

(9) Situation of significant parent company and subsidiaries (As of March 31, 2016)

Not applicable

(10) Major lenders (As of March 31, 2016)

Lenders	Balance of loan (Millions of yen)
Syndicated loans	24,000
Sumitomo Mitsui Banking Corporation	1,500
Sumitomo Mitsui Trust Bank, Limited	4,000
The Senshu Ikeda Bank, Ltd.	5,000
Development Bank of Japan Inc.	1,000

(Note) Syndicated loans: co-financing with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited as managers.

2. Status of shares (As of March 31, 2016)

- (1) Total number of shares authorized to be issued 125,760,000 shares
(2) Total number of shares issued 36,800,000 shares
(Includes 1,244 shares of treasury stock)
(3) Number of shareholders 21,371 persons
(4) Top 10 shareholders

Name of shareholder	Number of shares held (Thousands of shares)	Ratio of shares held versus total number of shares issued (%)
NIPPON STEEL & SUMITOMO METAL CORPORATION	8,800	23.91
Kobe Steel, Ltd.	8,800	23.91
SUMITOMO CORPORATION	864	2.35
Japan Trustee Services Bank, Ltd. (Trust Account)	451	1.23
The Master Trust Bank of Japan, Ltd. (Trust Account)	438	1.19
DEUTSCHE BANK AG LONDON-PB NON-TREATY CLIENTS 613	341	0.93
NORTHERN TRUST CO. (AVFC) RE EXEMPT UK PENSION FUNDS	306	0.83
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	290	0.79
Japan Trustee Services Bank, Ltd. (Trust Account 1)	214	0.58
Nomura Securities Co., Ltd.	214	0.58
Total	20,721	56.30

(Note) Figures for ratio of shares held are calculated after excluding treasury stock from the total number of shares issued.

3. Subscription right for new shares (As of March 31, 2016)

Not applicable

4. Company officers

(1) Directors, Member of the Board and Audit & Supervisory Board Members (As of March 31, 2016)

Position	Name	Areas of responsibility within the Company and significant concurrent positions
Representative Director, Member of the Board, and President*	Yuichi Seki	
Representative Director, Member of the Board, and Executive Vice President*	Fumio Otaguro	Oversees Subcontract and Purchasing Department In charge of General Affairs, Human Resources, Safety and Health, GENBA-RYOKU Planning & Promotion Departments, and Kishiwada Works
Director, Member of the Board, and Senior Managing Executive Officer*	Takahisa Miyake	Oversees Facilities Department and Environmental Control and Disaster Planning Group In charge of Production Control, Technology, and High-Performance Materials Manufacturing Departments
Director, Member of the Board, and Senior Managing Executive Officer*	Mitsuo Takamura	Oversees Raw Materials, and Sales and Marketing Departments, and New Business Development Project Team General Manager of Tokyo Office
Director, Member of the Board, and Senior Managing Executive Officer*	Masato Ichise	In charge of Finance and Accounting, and System Departments
Director, Member of the Board	Akira Takamatsu	Outside Director, DAIBIRU CORPORATION
Director, Member of the Board	Nae Iijima	Attorney-at-Law and Partner of Dojima Law Office and Outside Auditor, NAVITAS Co., LTD.
Audit & Supervisory Board Member (Full Time)	Munehisa Okada	
Audit & Supervisory Board Member	Masafumi Morisaki	General Manager of Group Companies Planning Division, Nippon Steel & Sumitomo Metal Corporation and Outside Auditor, KROSAKI HARIMA CORPORATION
Audit & Supervisory Board Member	Hajime Nagara	Senior General Manager, General Manager of Planning & Administration Department, Iron & Steel Business, Kobe Steel, Ltd.
Audit & Supervisory Board Member	Fumio Sugizaki	

(Notes) 1. Asterisks (*) indicate titles for Executive Officers.

2. Director, Member of the Board Akira Takamatsu and Nae Iijima are Outside Directors, Member of the Board as stipulated in Article 2, Paragraph 15 of the Companies Act.
3. Audit & Supervisory Board Members Masafumi Morisaki, Hajime Nagara, and Fumio Sugizaki are Outside Audit & Supervisory Board Members as stipulated in Article 2, Paragraph 16 of the Companies Act.
4. The Company has designated Directors, Members of the Board Akira Takamatsu and Nae Iijima, Audit & Supervisory Board Member Fumio Sugizaki as Independent Director/Auditor as stipulated by the Tokyo Stock Exchange, Inc. and has registered them at the aforementioned Exchange.

5. Audit & Supervisory Board Member Fumio Sugizaki has many years of experience in operations of accounting and finance at NISSAN MOTOR CO., LTD. and its group of enterprises, and has an adequate level of knowledge in finance and accounting.
6. At the 18th Annual General Shareholders Meeting held on June 19, 2015, Nae Iijima was newly elected as Director, Member of the Board, and Munehisa Okada, Masafumi Morisaki and Hajime Nagara were newly elected as Audit & Supervisory Board Members, and assumed their respective positions.
7. As of the closing of the 18th Annual General Shareholders Meeting held on June 19, 2015, Directors, Members of the Board Yosiki Morishita, Yoichi Aminaga and Tuneaki Nishikawa, Audit & Supervisory Board Members, Masaru Itajiki, Machi Nakata and Yasushi Tsushima retired upon the expiration of their terms of office.
8. The Company amended its Articles of Incorporation at the 9th Annual General Shareholders Meeting held on June 23, 2006, and has established regulations regarding liability limitation agreements with Outside Directors, Member of the Board and Outside Audit & Supervisory Board Members. Based on these Articles of Incorporation, the Company has concluded liability limitation agreements with all Outside Directors, Member of the Board and Outside Audit & Supervisory Board Members that limit the amount of liability to the total of each item in Article 425, Paragraph 1 of the Companies Act should the Company be harmed as a result of the execution of duties by Outside Directors, Member of the Board or Outside Audit & Supervisory Board Members, as long as they are without knowledge and are not grossly negligent in performing their duties.

(2) Total amount of remuneration, etc., to Directors, Members of the Board and Audit & Supervisory Board Members

Classification	Number of persons paid	Amount paid (Millions of yen)
Directors, Members of the Board	10	204
Audit & Supervisory Board Members	3	22
Total	13	227
(Of which, Outside Officers)	(3)	(14)

- (Notes)
1. Total amount of remuneration, etc. of Directors, Members of the Board does not include the portion of employee salary paid to Directors, Members of the Board concurrently serving as employees.
 2. The amount of remuneration to Directors, Members of the Board is limited to 24 million yen per month by resolution at the 18th Annual General Shareholders Meeting held on June 19, 2015, and the amount of remuneration to Audit & Supervisory Board Members is limited to 5 million yen per month by resolution at the 9th Annual General Shareholders Meeting held on June 23, 2006.
 3. The total amount of remuneration, etc., includes those for three (3) Directors, Members of the Board and one (1) Audit & Supervisory Board Member whose terms expired at the close of the most recent Annual General Shareholders Meeting. Furthermore, the number of persons as of the end of the fiscal year under review is seven (7) Directors, Members of the Board and four (4) Audit & Supervisory Board Members.

(3) Outside officers (As of March 31, 2016)

(i) Significant concurrent position held at other companies, etc. and relationship between the Company and other such companies, etc.

Classification	Name	Company, etc. where concurrent position is held	Description of concurrent position	Relationship
Outside Director, Member of the Board	Akira Takamatsu	DAIBIRU CORPORATION	Outside Director	There are no significant relationships between the Company and DAIBIRU CORPORATION
Outside Director, Member of the Board	Nae Iijima	Dojima Law Office	Attorney-at-Law and Partner	There are no significant relationships between the Company and Dojima Law Office.
		NAVITAS Co., LTD.	Outside Auditor	There are no significant relationships between the Company and NAVITAS Co., LTD.
Outside Audit & Supervisory Board Member	Masafumi Morisaki	Nippon Steel & Sumitomo Metal Corporation	General Manager of Group Companies Planning Division	There are relationships between the Company and Nippon Steel & Sumitomo Metal Corporation: the Company sells metal titanium, etc. to Nippon Steel & Sumitomo Metal Corporation.
		KROSAKI HARIMA CORPORATION	Outside Auditor	There are relationships between the Company and KROSAKI HARIMA CORPORATION: the Company purchases refractory bricks, etc. from KROSAKI HARIMA CORPORATION.
Outside Audit & Supervisory Board Member	Hajime Nagara	Kobe Steel, Ltd.	Senior General Manager, General Manager of Planning & Administration Department, Iron & Steel Business	There are relationships between the Company and Kobe Steel, Ltd.: the Company sells metal titanium, etc. to Kobe Steel, Ltd.

(ii) Main activities of outside officers

Classification	Name	Main activities
Outside Director, Member of the Board	Akira Takamatsu	Participated in 12 of the 12 Board of Directors meetings during the fiscal year under review, and made comments as necessary from his wealth of experience and wide range of views on economics and finance to secure appropriateness of deliberations, and also provided advice and suggestions on overall corporate management.
Outside Director, Member of the Board	Nae Iijima	After election at the Annual General Shareholders Meeting held in June 2015, participated in 9 of the 9 Board of Directors meetings during the fiscal year under review, and made comments as necessary primarily as a Director, Member of the Board with expert legal knowledge cultivated through professional practice as an attorney-at-law.
Outside Audit & Supervisory Board Member	Masafumi Morisaki	After election at the Annual General Shareholders Meeting held in June 2015, participated in 9 of the 9 Board of Directors meetings and 10 of the 10 Audit & Supervisory Board meetings during the fiscal year under review, and made comments as necessary primarily based on his knowledge of the Company's business and views as an Audit & Supervisory Board Member with views on overall corporate management.
Outside Audit & Supervisory Board Member	Hajime Nagara	After election at the Annual General Shareholders Meeting held in June 2015, participated in 9 of the 9 Board of Directors meetings and 8 of the 10 Audit & Supervisory Board meetings during the fiscal year under review, and made comments as necessary primarily based on his knowledge of the Company's business and views as an Audit & Supervisory Board Member with views on overall corporate management.
Outside Audit & Supervisory Board Member	Fumio Sugizaki	Participated in 12 of the 12 Board of Directors meetings and 15 of the 15 Audit & Supervisory Board meetings during the fiscal year under review and made comments as necessary primarily as an Audit & Supervisory Board Member with knowledge of finance and accounting.

5. Certain matters concerning accounting auditor

(1) Name of accounting auditor

Deloitte Touche Tohmatsu LLC

(2) Change of accounting auditor during the fiscal year under review

Not applicable

(3) Limited liability agreement

Not applicable

(4) Amount of remuneration, etc. for the accounting auditor relating to the fiscal year under review

Amount of remuneration, etc. relating to the services provided for under Article 2, paragraph 1 of the Certified Public Accountants Act (Law No. 103 of 1948): 29 million yen

(Notes)

1. The agreement concluded between the Company and the accounting auditor does not distinguish the amount of audit remuneration for audits based on the Companies Act and audits based on the Financial Instruments and Exchange Act, so the aforementioned amount of remuneration, etc. states the total amount for these audits.
2. The Audit & Supervisory Board has consented to the amount of remuneration, etc. for the accounting auditor after conducting the necessary investigation as to whether the details of the accounting auditor's audit plan, the execution of the accounting auditor's duties, and the grounds for calculating the estimated remuneration are appropriate.

(5) Policy on determining the dismissal or non-reappointment of the accounting auditor

In addition to the dismissal of the accounting auditor by the Audit & Supervisory Board provided for under Article 340 of the Companies Act, the Audit & Supervisory Board will determine the content of a proposal for the dismissal or non-reappointment of the accounting auditor concerned that will be submitted by the Company to the General Shareholders Meeting in cases when it is deemed difficult for the accounting auditor to execute duties appropriately, such as the occurrence of events that impair the competency of the accounting auditor, or in cases when a change of accounting auditor is deemed to be appropriate.

6. Development of systems to ensure the appropriateness of business operations

The Company has resolved the basic policy on its internal control system as below.

(1) Basic approach to the internal control system

The systems to ensure that the execution of duties by the Company's Directors Members of the Board complies with laws and regulations and the Articles of Incorporation and other systems set forth by ordinance of the Ministry of Justice as necessary to ensure the appropriateness of business operations as a stock company are resolved by the Board of Directors and described below.

(2) Systems to ensure that the execution of duties by Directors, Members of the Board complies with laws and regulations and the Articles of Incorporation

The Company's Board of Directors is made up of seven (7) Directors, Members of the Board (including two (2) Outside Directors, Members of the Board). We adopted the Audit & Supervisory Board Member system, and three of four (4) Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members. Our aim is to maintain and enhance management efficiency and to strengthen the supervisory function by having the Board of Directors composed of Directors, Member of the Board, who are well-versed in the Company's business, and Outside Directors, Members of the Board, who either have outstanding insight into management overall or have expert knowledge as an attorneys-at-law as well as no special interest in the Company. At the same time, we seek to maintain and strengthen the transparency and soundness of management by enhancing the auditing function by including Outside Audit & Supervisory Board Members.

Based on this organizational arrangement, the Board of Directors has resolved Corporate Activity Rules which should be considered the basic mission in executing the Company's business activities, and has stipulated that compliance with the Rules is an obligation for officers and employees.

As for the compliance system, a Compliance and Risk Management Committee has been established to implement management practices that comply with laws and social obligations, to take preventive measures for the risks surrounding our business and to make decision and respond when incidents occur in a quick and appropriate manner. The Company has also established both an in-house and external Compliance Helpline and Whistleblower Hotline that accept constructive suggestions and submissions from employees (includes Directors, Member of the Board, Audit & Supervisory Board Members, and Executive Officers) concerning matters relating to compliance that could seriously impact on confidence in the Company.

Moreover, the Company has also produced a Compliance Manual succinctly specifying the basic matters to be observed by the Directors, Members of the Board, Audit & Supervisory Board Members, Executive Officers and other employees in executing corporate activities.

Based on such systems, the Company strives to strictly enforce compliance all the time.

(3) Systems to ensure appropriateness of business operations

- i) Retention and management of information relating to the execution of duties by the Directors, Members of the Board

Information relating to the execution of duties by the Directors, Members of the Board is noted and recorded in the minutes of the Board of Directors, approval documents and other documents, and this information is retained and managed appropriately through the creation of internal regulations such as the Approval Documents Regulation, the Authority Standard Regulation, the Document Management Regulation, and the Electronic Information Management Regulation.

- ii) Regulations and other systems relating to managing risk of loss

In order to identify and understand the risks relating to business activities, the Company has established the necessary internal committees and makes constant efforts to minimize risk, including implementing regular monitoring based on a company-wide Risk Survey List. The Company has developed a system for emergency countermeasures, including the Compliance and Risk Management Committee, in case a problem arises.

- iii) Systems to ensure efficient execution of duties by the Directors, Members of the Board
 The Company has introduced an Executive Officer system that separates the management decision-making and supervisory function from the execution of operations function to produce a system in which decision-making by the Board of Directors is carried out promptly and efficiently.
 Moreover, the Company has formulated appropriate decision-making rules based on the Division of Duties Regulation, the Authority Standard Regulation and other internal regulations and has produced a system in which duties are executed appropriately and efficiently.
 Important management-related matters are decided on by the Board of Directors after deliberation by the necessary members at the Management Committee, etc. whenever necessary.
- iv) Systems to ensure that execution of duties by employees complies with laws and regulations and the Articles of Incorporation
 As stated in (2) above, the Company has developed the relevant systems through determining the Corporate Activity Rules and setting up the Compliance and Risk Management Committee, etc. The Company aims to prevent irregularities through the establishment of the Compliance Helpline and Whistleblower Hotline System that facilitates consultation and whistleblowing on matters of compliance.
 The Audit & Supervisory Board Members and the Internal Auditing Department which is the internal audit division, regularly monitor and verify the compliance and appropriateness of the execution of duties.
- v) Systems to ensure appropriateness of operations in the corporate group composed of the Company, its parent company, and its subsidiaries
 While the Company has no parent companies, it is an equity-method affiliate of Nippon Steel & Sumitomo Metal Corporation and Kobe Steel Ltd. The Company bears the responsibility for its own management and engages in independent business management.
 The Company has no corporate group that corresponds to subsidiaries.
- vi) Matters regarding employees assisting duties of Audit & Supervisory Board Members, when Audit & Supervisory Board Members ask to appoint such employees
 Based on the Audit & Supervisory Board Members Audit Regulations, when the Audit & Supervisory Board Members make a request, the Company appoints assistants to the Audit & Supervisory Board Members following consultation with both parties.
 When appointing assistants, the Company considers the necessary matters to ensure the independence of the assistants, including the authority of the assistants, the organization to which they are affiliated, the right of the Audit & Supervisory Board Members to issue instructions and orders, and the right of the Audit & Supervisory Board Members to consent to assistant personnel decisions, and ensures the effectiveness of the directions of the Audit & Supervisory Board Members to the relevant employees.
- vii) Systems of reporting to the Audit & Supervisory Board Members by Directors, Members of the Board and employees and other systems for reporting to the Audit & Supervisory Board Members
 In addition to attending the Board of Directors, the Audit & Supervisory Board Members attend important meetings, including various meetings related to key management issues and meetings of the Compliance and Risk Management Committee and receive reports from the Directors, Member of the Board, Executive Officers and other employees concerning the execution of the business operations for which they are responsible.
 When the Directors, Member of the Board, Executive Officers and other employees discover facts that could cause significant damage to the Company, they are to report them to the Audit & Supervisory Board Members promptly.
 In addition, when there has been a consultation or a whistleblowing through the Compliance Helpline and Whistleblower Hotline System, the details are to be reported to the Audit & Supervisory Board Members promptly.
 Under the Employment Regulation, discrimination against a person who has made a report or an consultation or a whistleblower outlined above is prohibited.

viii) Other systems to ensure that audits by the Audit & Supervisory Board Members are performed effectively

The Audit & Supervisory Board Members and the Representative Director, Member of the Board & President periodically work to communicate with each other, including exchanging opinions on company operations.

The Audit & Supervisory Board Members regularly implement audits while maintaining close connections with the Internal Auditing Department, and the Directors, Member of the Board, Executive Officers and departments concerned respond by providing explanations of such matters as the state of and challenges in the running and management of operations. The Audit & Supervisory Board Members report important matters arising from the results of audits to the Board of Directors.

When the Audit & Supervisory Board Members conduct onsite inspections, etc. in order to ascertain the actual circumstances of overall business operations, the Directors, Member of the Board, Executive Officers and departments concerned respond promptly and appropriately with the aim of effective audits.

Moreover, when the Audit & Supervisory Board members and the Audit & Supervisory Board request the necessary expenses to perform audits, the Company accommodates the request except in cases where it is deemed that the expenses are not required for the execution of duties.

7. Summary of the operational state of systems to ensure the appropriateness of business operations

(1) State of initiatives concerning the execution of the duties by the Directors, Members of the Board

During the fiscal year ended March 31, 2016, there were 12 Board of Directors meetings, and matters stipulated by laws and regulations and important matters related to management were discussed by the Board of Directors following deliberation by the Management Committee and in other forums. The Company introduced an Executive Officer system in June 2015 with the aim of enhancing and speeding up decision-making and strengthening the supervisory function by optimizing the number of Directors, Members of the Board and reviewing the resolutions and reports of the Board of Directors.

In addition, the Company further strengthened the supervisory function regarding execution of the duties of the Directors, Members of the Board by increasing the number of Independent Outside Directors, Members of the Board to two through election at the General Shareholders Meeting held in June 2015.

The progress of the Medium-term Management Plan (FY2015–FY2017) formulated in May 2015 was also reported to the Board of Directors.

(2) State of initiatives ensuring the effectiveness of audits by the Audit & Supervisory Board Members

During the fiscal year ended March 31, 2016, there were 15 Audit & Supervisory Board meetings to consult on and determine audit policy and the auditing plan and to exchange opinions, deliberate and validate the legality and appropriateness of management.

In addition, based on the audit policy and the auditing plan, the Audit & Supervisory Board Members attended important internal meetings including the Board of Directors and the Management Meeting and provided monitoring, advice and recommendations on management concerning the execution of duties by the Directors, Members of the Board and the state of legal compliance.

Due to a request from the Audit & Supervisory Board Members concerning the need for assignment of an employee to assist the Audit & Supervisory Board Members, the Company assigned one assistant in July 2015.

(3) State of initiatives concerning compliance

The Company has formulated the Corporate Activity Rules and, in an initiative by the Compliance and Risk Management Committee, has produced a list of laws and regulations that are relevant to business activities to observe legislative revision trends while checking on the status of legal compliance.

The Company has also established and runs both an in-house and external Compliance Helpline and Whistleblower Hotline. The objectives are legal compliance and conformity with social norms of corporate conduct and further improvement in the workplace environment.

The Company also provides grade-specific training on compliance when employees join, on promotion to manager, and for department heads, etc. In addition, in the fiscal year ended March 31, 2016, the Company carried out new in-house awareness raising activities that included the regular issue of compliance news, the display of posters, and the distribution of compliance cards to all employees in efforts to further raise consciousness about legal compliance.

(4) State of initiatives concerning risk management

The Compliance and Risk Management Committee has prepared the Risk Survey List facilitating centralized management for the identification of potential risks in the Company's business activities, preventive measures, and response measures in the event that a problem materializes, and the preventive measures identified have been reflected in day-to-day business operations.

The Environment and Disaster Prevention Committee also worked on risk assessment activities for active metals.

Furthermore, the Company established the Business Continuity Plan Regulation in order to make it possible to continue operations when a disaster, etc. strikes through the first response to an earthquake and tsunami, the establishment of a disaster response headquarters and the formulation of action plans for each department to ensure that it can respond in an emergency. As part of the drills for checking on the effectiveness of these measures, the Company conducted a return home drill for the first time in the fiscal year ended March 31, 2016.

8. The Company's policy regarding the exercise of the right to determine dividends from surplus, etc.

When planning to increase the Company's value as we go into the future, the Company considers strengthening the foundations of management and, at the same time, returning profits to shareholders, as being the most important management issues.

Concerning the distribution of profits, we are mindful of securing the necessary retained earnings to fund investments in sustainable growth and also stabilize and strengthen our financial standing, while paying attention to the stability of dividends to shareholders, we aim to implement our dividend payout ratio of 25% - 35%.

Regarding the total dividends for the fiscal year under review, in light of the business results of the fiscal year under review, it is truly regrettable but, we have decided to refrain from paying a year-end dividend and, accordingly, the amount of total dividends will be the already implemented interim dividend of five (5) yen per share.

Regarding forecasted dividends for the fiscal year ending March 31, 2017, no interim dividend will be paid, while the payment of a year-end dividend is still undecided as a result of pending elements in the sales environment, and will therefore be decided at a future point in time after ascertaining business and market trends.

(Note) Regarding figures published in this business report, figures relating to monetary amounts and amounts of stock are rounded down, while other figures are rounded to the nearest full unit.

Balance Sheet

(As of March 31, 2016)

(Millions of yen)

Description	Amount	Description	Amount
(Assets)		(Liabilities)	
Current assets	36,266	Current liabilities	30,841
Cash and deposits	2,036	Trade notes payable	413
Trade accounts receivable	10,701	Trade accounts payable	4,363
Finished products	11,118	Short-term bank loans	23,790
Work in process	4,059	Current portion of lease obligations	0
Raw materials and supplies	7,324	Accounts payable - other	135
Advance payments - trade	3	Income taxes payable	51
Prepaid expenses	96	Accrued consumption taxes	129
Deferred tax assets	884	Accrued expenses	659
Other	45	Deposits received	45
Allowance for doubtful receivables	(3)	Provision for bonuses	363
Fixed assets	52,639	Provision for business restructuring expenses	360
Property, plant and equipment	47,678	Notes payable - facilities	61
Buildings	12,416	Accounts payable - facilities	466
Structures	471	Long term liabilities	24,241
Machinery and equipment	19,220	Long-term debt	21,000
Vehicles	4	Liability for retirement benefits	1,768
Tools, furniture and fixtures	117	Asset retirement obligations	1,327
Land	14,823	Other	145
Construction in progress	624	Total liabilities	55,083
Intangible assets	727	(Equity)	
Software	452	Shareholders' equity	33,859
Other	275	Common stock	8,739
Investments and other assets	4,233	Capital surplus	8,943
Investment securities	125	Additional paid-in capital	8,943
Shares of subsidiaries and associates	61	Retained earnings	16,187
Long-term prepaid expenses	2	Legal reserve	38
Prepaid pension cost	909	Unappropriated	16,148
Deferred tax assets	3,025	Reserve for advanced depreciation of non-current assets	647
Other	109	Retained earnings brought forward	15,501
		Treasury stock	(9)
		Valuation and translation adjustments	(37)
		Unrealized gain on available-for-sale securities	63
		Deferred loss on derivatives under hedge accounting	(100)
		Total equity	33,822
Total assets	88,905	Total liabilities and equity	88,905

(Note) Figures are rounded down to the nearest million yen.

Statement of Operations

(From April 1, 2015 to March 31, 2016)

(Millions of yen)

Description	Amount	
Net sales		41,149
Cost of sales		37,565
Gross profit		3,584
Selling, general and administrative expenses		5,227
Operating loss		1,643
Non-operating income		
Interest and dividend income	10	
Subsidy income	92	
Other	191	295
Non-operating expenses		
Interest expenses	212	
Depreciation of inactive non-current assets	6	
Foreign exchange losses - net	466	
Other	24	710
Ordinary loss		2,058
Extraordinary losses		
Loss on retirement of non-current assets	137	
Impairment loss	9,510	
Loss on valuation of golf club membership	4	9,652
Loss before income taxes		11,711
Income taxes-current	65	
Income taxes-deferred	(2,935)	(2,870)
Net loss		8,840

(Note) Figures are rounded down to the nearest million yen.

Statement of Changes in Equity

(From April 1, 2015 to March 31, 2016)

(Millions of yen)

	Shareholders' equity						Total shareholders' equity
	Common stock	Capital surplus	Legal reserve	Retained earnings		Treasury stock	
		Additional paid-in capital		Unappropriated			
				Reserve for advanced depreciation of non-current assets	Retained earnings brought forward		
Balance as of April 1, 2015	8,739	8,943	38	702	25,023	(9)	43,436
Changes of items during the period							
Provision of reserve for advanced depreciation of non-current assets				15	(15)		–
Reversal of reserve for advanced depreciation of non-current assets				(70)	70		–
Cash dividends (Note)					(735)		(735)
Net loss					(8,840)		(8,840)
Net changes of items other than shareholders' equity							
Total changes of items during the period	–	–	–	(54)	(9,521)	–	(9,576)
Balance as of March 31, 2016	8,739	8,943	38	647	15,501	(9)	33,859

	Valuation and translation adjustments			Total equity
	Unrealized gain on available-for-sale securities	Deferred loss on derivatives under hedge accounting	Total valuation and translation adjustments	
Balance as of April 1, 2015	152	(49)	102	43,539
Changes of items during the period				
Provision of reserve for advanced depreciation of non-current assets				–
Reversal of reserve for advanced depreciation of non-current assets				–
Cash dividends (Note)				(735)
Net loss				(8,840)
Net changes of items other than shareholders' equity	(88)	(51)	(140)	(140)
Total changes of items during the period	(88)	(51)	(140)	(9,716)
Balance as of March 31, 2016	63	(100)	(37)	33,822

(Note) Cash dividends of (551) million yen resolved at the Board of Directors meeting held on May 15, 2015 and Cash dividends of (183) million yen resolved at the Board of Directors meeting held on October 29, 2015.

Notes

Significant Accounting Policies

- (1) Basis and method for evaluation of assets
 - Basis and method for evaluation of securities
 - Other available-for-sale securities
 - Securities with market quotations
 - Stated at market value as of the balance sheet date (Net unrealized gains or losses are comprehensively included in net assets, and the cost of securities sold is determined by the moving-average method.)
 - Securities without market quotations
 - Stated at cost determined by the moving-average method.
 - Derivatives transactions
 - Fair value method.
 - Basis and method of evaluation of inventories
 - Cost accounting method based on the periodic average method (the method of reducing book value when the contribution of inventories to profitability declines).
- (2) Depreciation methods for fixed assets
 - Property, plant and equipment (excluding leased assets): Declining balance method
 - However, the straight-line method is used for titanium manufacturing facilities (machinery and equipment), polycrystalline silicon manufacturing facilities (machinery and equipment), and buildings acquired on or after April 1, 1998 (excluding these buildings' ancillary equipment). The useful lives of major non-current assets are as follows.
 - Buildings (including buildings' ancillary equipment): 3-50 years.
 - Machinery and equipment: 5-14 years.
 - Intangible assets (excluding leased assets): Straight-line method.
 - Software products used by the Company are amortized over a projected usage periods that are of 5 years.
 - Leased assets
 - Finance leases in which ownership has been transferred
 - The same depreciation method as that used for non-current assets owned by the Company.
 - Finance leases in which ownership has not been transferred
 - The straight-line method, in which the lease period is equivalent to the useful life of the asset and the residual value is zero.
 - Long-term prepaid expenses: Straight-line method.
- (3) Basis for recording allowances and provisions
 - Allowance for doubtful receivables: To provide for potential losses on doubtful accounts, the allowance for doubtful accounts is computed based on the historically experienced default ratio for non-specific receivables as well as based on the estimated irrecoverable portion of specific doubtful receivables calculated individually

 - Provision for bonuses: The Company provides accrued bonuses for employees based on the estimated amounts to be paid in respect of the fiscal period

 - Provision for business restructuring expenses: In order to reserve for future losses related to business restructuring, an allowance is recorded based on the projected amount by the end of the fiscal year under review.

 - Liability for retirement benefits: In order to reserve for employee retirement benefits, an allowance is recorded based on the projected amount of pension fund assets and retirement benefit obligations at the end of the fiscal year under review.
 - (i) Method of attributing projected retirement benefits to periods
 - The employee retirement benefit obligation is computed based on the benefit formula basis using the projected retirement benefit obligation at the end of the fiscal year under review.
 - (ii) Accounting treatment of actuarial gains/losses and prior service costs
 - Actuarial gains and losses are treated as expenses using the straight-line method over a fixed number of years (17 years) no longer than employees' average remaining service period starting

in the fiscal year following their occurrence.

Prior service costs are treated as expenses using the straight-line method over a fixed number of years (17 years) no longer than employees' average remaining service period starting in the fiscal year in which they occur.

(4) Method for hedge accounting

Method for hedge accounting

Hedging is accounted for using deferred hedging.

Hedging instruments and hedged items

Hedging instruments: Foreign exchange forwards, interest rate swaps

Hedged items: Foreign exchange transactions, interest payments

Hedging policy

The Company enters into foreign exchange forward transactions to hedge its foreign exchange risk.

The Company's policy for entering into such transactions is that they be limited to actual need and not be done to earn a margin on these transactions or for other speculative purposes. In addition, the

Company enters into interest rate swaps transactions in order to mitigate interest rate risk on its debt, and each swap contract identifies the particular target of the hedge.

Method of evaluating hedge effectiveness

Hedge effectiveness is evaluated every six months by comparing the cumulative amount of interest-rate fluctuation in interest payments on debt with the cumulative amount of interest-rate fluctuation in the interest rate swap.

(5) Accounting treatment of consumption tax, etc.

The consumption tax is accounted for using the tax exclusion method.

Notes to the Balance Sheet

(1) Accumulated depreciation of Property, plant and equipment

84,811 million yen

(2) Asset collateral and collateralized liabilities

In order to reduce interest expense, the Company has pledged the following assets as mortgage of future receivables based on the Bank of Japan's Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth (Special Rules).

Asset collateral	Trade accounts receivable	8,239 million yen
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Collateralized liabilities	Short-term bank loans	2,290 million yen
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However, collateral enforcement is limited to a maximum of 10,000 million yen, so that any amount in excess of 10,000 million yen is to be waived by the creditor.

(3) Accounts receivable to subsidiaries and associates

Trade accounts receivable	289 million yen
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(4) Contingent liabilities

Joint liabilities on guarantees for employees' loans of housing funds	212 million yen
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(5) Book value of inactive non-current assets

Machinery and equipment	5 million yen
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(6) Notes regarding the financial covenant

In order to procure investment capital, the Company concluded a loan agreement (a syndicated loan) with financial covenant and the contents of that agreement are below.

If we infringe the financial covenant and there are claims by a significant number of lenders of the syndicate, we forfeit the benefit of time, and bear the obligation to pay the amount of the loan, interest and settlement money right away.

Syndicated Loan Agreement dated December 30, 2013, with Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Trust Bank, Limited as managers

(Financial covenant)

- (1) Maintain the total equity amount in the balance sheet in the report for the last day of each fiscal year at 33.1 billion yen or more, or maintain it at 75% of the total equity amount in the balance sheet in the report for the last day of the most recent fiscal year, whichever is higher.
- (2) The Company shall not record cash flow amount in deficit from operating activities in the statement of cash flows of the report for the last day each fiscal year for two consecutive years.

Syndicated Loan Agreement dated July 31, 2014, with Sumitomo Mitsui Banking Corporation as manager.

(Financial covenant)

- (1) Maintain the total equity amount in the balance sheet in the report for the last day of each fiscal year at 30.9 billion yen or more, or maintain it at 75% of the total equity amount in the balance sheet in the report for the last day of the most recent fiscal year, whichever is higher.
- (2) The Company shall not record cash flow amount in deficit from operating activities in the statement of cash flows of the report for the last day of each fiscal year for two consecutive years.

Notes to the Statement of Operations

(1) Transactions with subsidiaries and associates

Net sales to subsidiaries and associates: 717 million yen

(2) Devaluation due to decline of profitability on inventories included in the cost of sales: 418 million yen

(3) Impairment loss

Regarding polycrystalline silicon manufacturing facilities, impairment loss of 9,510 million yen was recorded as a result of reassessment of expected sales amount in view of the market deterioration and the production trouble we had.

Notes to the Statement of Changes in Equity

(1) Number of shares issued

Type of stock	Beginning of the fiscal year under review	Increase	Decrease	End of the fiscal year under review
Common stock	36,800,000 shares	-	-	36,800,000 shares

(2) Treasury stock

Type of stock	Beginning of the fiscal year under review	Increase	Decrease	End of the fiscal year under review
Common stock	1,244 shares	-	-	1,244 shares

(3) Dividends

Amount of dividends paid

Resolution	Type of stock	Amount of total dividends (millions of yen)	Dividend per share (yen)	Base date	Effective date
Board of Directors Meeting May 15, 2015	Common stock	551	15.00	March 31, 2015	June 1, 2015
Board of Directors Meeting October 29, 2015	Common stock	183	5.00	September 30, 2015	December 1, 2015

Notes to Tax-effect Accounting

(1) Principal components of deferred tax assets and deferred tax liabilities

(Millions of yen)

(Current assets)	
Deferred tax assets	
Provision for bonuses	112
Provision for business restructuring expenses	110
Accrued social insurance premiums	16
Enterprise tax	2
Loss on valuation of inventories	340
Other	301
Total deferred tax assets	<u>884</u>
(Fixed assets)	
Deferred tax assets	
Golf club membership	30
Liability for retirement benefits	540
Deferred loss on derivatives under hedge accounting	44
Depreciation	331
Asset retirement obligations	406
Impairment loss	2,502
Other	40
Loss brought forward from the previous term	1,184
Sub total	5,081
Valuation allowance	(1,261)
Total deferred tax assets	<u>3,819</u>
Deferred tax liabilities	
Property, plant and equipment (Asset retirement obligations)	201
Prepaid pension cost	278
Unrealized gain on available-for-sale securities	28
Reserve for advanced depreciation of non-current assets	285
Total deferred tax liabilities	<u>793</u>
Net of deferred tax assets	<u>3,025</u>

- (2) Revisions of deferred tax assets and deferred tax liabilities due to changes in corporate tax rates, etc.
The “Law for Partial Revision of Income Tax Law” and the “Law for Partial Revision of Local Tax Law” were approved by the National Diet on March 29, 2016, resulting in a reduction in the corporate tax rates from fiscal years beginning on or after April 1, 2016. Accordingly, the effective statutory tax rate used to measure deferred tax assets and liabilities will be reduced from 32.3% to 30.8% for temporary differences expected to be realized in the fiscal year beginning on April 1, 2016 and April 1, 2017, and to 30.6% for temporary differences expected to be realized in fiscal years beginning on or after April 1, 2018.

As a result, deferred tax assets (net of deferred tax liabilities) declined by 221 million yen and deferred loss on derivatives under hedge accounting declined by 2 million yen, while the amount of the income taxes-deferred recorded in the fiscal year under review increased by 220 million yen and the unrealized gain on available-for-sale securities increased by 1 million yen.

Notes to Financial Instruments

(1) Status of financial instruments

Funds managed by the Company are limited to short-term deposits and the like, while capital procurement by the Company consists of borrowings from banks and other financial institutions.

The Company attempts to minimize counterparty credit risk related to notes receivable - trade and trade accounts receivable in accordance with its credit control guidelines.

In addition, as investment securities consist primarily of equities, the Company checks the quoted market prices of its listed equity holdings on a quarterly basis. Borrowings are used for working capital (primarily short-term) and capital investment (long-term). The Company has entered into interest rate swap contracts to fix the interest payments for reducing interest rate fluctuation risk of some of its long-term debt. Also, in accordance with its internal control procedures, the Company has entered into derivatives transactions in the form of foreign exchange contracts to hedge foreign exchange risk on its foreign currency-denominated receivables and in the form of interest rate swaps to hedge the fluctuation risk of interest payments on some of its long-term debt. These transactions are limited to the extent required, and are not entered into for speculative purposes.

(2) Fair value, etc. of financial instruments

Carrying amount of financial instruments on the balance sheet, fair value, and the differences as of March 31, 2016 (the closing date of the fiscal year under review) are as follows.

(Millions of yen)			
Item	Carrying amount*	Fair value*	Difference
1) Cash and deposits	2,036	2,036	-
2) Trade accounts receivable	10,701	10,701	-
3) Investment securities and Shares of subsidiaries and associates			
Available-for-sale securities	125	125	-
Shares of subsidiaries and associates	61	61	-
4) Trade accounts payable	(4,363)	(4,363)	-
5) Short-term bank loans	(5,000)	(5,000)	-
6) Accounts payable - facilities	(466)	(466)	-
7) Long-term debt	(39,790)	(39,793)	-3
8) Derivative transactions	(145)	(145)	-

*Liabilities are presented with parentheses.

(Notes)

Methods for computing the estimated fair value of financial instruments and matters related to securities and derivative transactions

1) Cash and deposits

The fair value is deemed to be the carrying amount, inasmuch as it approximates carrying amount.

2) Trade accounts receivable

Since it is settled in a short period of time and has fair values that are virtually the same as the carrying amounts on the Company's ledger, the ledger values have been used.

3) Investment securities and Shares of subsidiaries and associates

Regarding the fair values of these items, shares are valued at the Stock Exchange price.

4) Trade accounts payable, 5) Short-term bank loans, 6) Accounts payable - facilities

Since these items are settled in a short period of time and have fair values that are virtually the same as the carrying amounts on the Company's ledger, the ledger values have been used.

7) Long-term debt

The market value of long-term loans is the present value, which is calculated by discounting the total of principal and interest by the interest rate assumed to be applied if the same loan were to be newly taken

8) Derivatives transactions

a. Items to which hedge accounting is not applied: No applicable items

b. Items to which hedge accounting is applied: The contract amount or equivalent of the principal amount prescribed by the contract as of the closing date of consolidated accounting according to hedge accounting methods are as follows.

(Millions of yen)

Hedge accounting method	Derivative type, etc.	Contract amount, etc.		Fair value	Method of calculating the applicable fair value
			Amount of more than 1 year-period contracts		
Appropriation of foreign exchange forwards, etc.	Foreign exchange forward contracts Selling U.S. dollars	371	—	*	
Interest rate swaps	Interest rate swap contracts Fixed interest payments and floating interest receivables	13,000	13,000	(145)	

(*) Items in appropriation of foreign exchange forwards are recognized together with hedged items (i.e. trade accounts receivable), therefore, their fair values are included in the fair value of trade accounts receivable.

Notes to Related Party Transactions

Parent company and major institutional shareholders, etc.

Attribute	Other subsidiaries and associates
Company name	Nippon Steel and Sumitomo Metal Corporation
Address	Chiyoda-ku, Tokyo
Common stock or investments in capital (millions of yen)	419,524
Business lines or occupations	Production and sales of steel and other metals
Ownership percentage of voting rights (%)	(held) Direct 23.9
Relationship	
Number of common directors	1
Business relationship	Sales of the Company's titanium metal, etc.
Description of transactions	Sales of titanium metal, etc.
Transaction amount (millions of yen)	717
Account	Trade accounts receivable
Fiscal year-end balance (millions of yen)	289

Terms and conditions of the transaction and its policies

- Prices and other terms and conditions of the transaction for the sale of titanium metal, etc. are identical to the terms and conditions with other parties that are not related to the Company.
- The transaction amount does not include consumption taxes, whereas the year-end balance includes consumption taxes.

Notes to Per-Share Information

- Net assets per share: 919.13 yen
- Net loss per share: 240.25 yen